

IN THE UNITED STATES BANKRUPTCY COURT

DISTRICT OF NEW JERSEY

FILED
JEANNE A. NAUGHTON, CLERK

DEC 23 2022

U.S. BANKRUPTCY COURT
TRENTON, NJ
BY  **DEPUTY**

In re:

BLOCKFI INC., et al.

Debtors.

Chapter 11

Case No. 22-19361 (MBK)

(Jointly Administered)

HEARING DATE AND TIME:

January 9, 2023, at 10:00 a.m. (EST)

OBJECTION TO ENTRY OF DEBTORS' MOTION TO

UPDATE THE USER INTERFACE AND RECONCILE BLOCKFI ACCOUNTS AS OF

PLATFORM PAUSE TIME STAMP

COMES NOW, the Creditor, Andre Paim Carollo dos Santos (BlockFi Email: apaimcar@gmail.com), acting pro se on his own behalf, hereby move the Honorable Court in the matter of the aforementioned case, and strongly object to the Debtors' motion dated December 19, 2022 (Debtors' Motion) to update the User Interface as of "Platform Pause Time Stamp" and reconcile user BlockFi Interest Accounts and Wallets to that particular time stamp on the following grounds:

- 1.) **Equitable Doctrine of Promissory Estoppel**: The “Platform Pause Time Stamp” is defined in the Debtors’ Motion (**Exhibit A**) to be November 10, 2022, 8:15 PM EST, based on their Twitter Post’s Time Stamp (**Exhibit B**). The Debtors made multiple clear public representations to the contrary on the same Twitter Platform earlier the same day on November 10, 2022 at around 9:00 AM EST that any reasonable person would have relied upon to their detriment that all of their transactions will continue and be fully operational including on November 11, 2022 (**Exhibit C and Exhibit D**). This will unconscionably prejudice any reasonable BlockFi user who would have planned ahead to make a transfer to their BlockFi Wallet on November 11, 2022, or later in the day on November 10, 2022. BlockFi cannot rely on their own public misstatements and misrepresentations to deprive BlockFi users of the funds which are fully and rightfully owned by them in the BlockFi Wallet per BlockFi’s own Wallet Terms of Service.
- 2.) **Clear and willful Fraud and Misrepresentation**: BlockFi clearly publicized on their FAQs (Frequently Asked Questions) on November 23, 2022 that users can continue to check their ACCURATE account balances through the BlockFi portal (**Exhibit E**). This public statement by BlockFi contradicts and makes it clear there is absolutely no basis for BlockFi’s claim in the Debtors’ Motion dated December 19, 2022 (**Exhibit A, S.3**) that the Platform Pause took effect at the time when BlockFi posted the Twitter Post on November 10, 2022 at 8:15 PM. Hence, contrary to the motion, there is no need or legal basis for reconciling Wallet and BlockFi Interest Account balances as of the “Platform Pause Time Stamp”.

In addition, BlockFi makes a clear distinction between “Withdrawals” and “Transfers” in their User Interface itself (**Exhibit F**). Per their Twitter Post on November 10, 2022 at 8:15 PM, they clearly speak only about “Withdrawals” which means a withdrawal to an external wallet or bank (**Exhibit B**). “Transfers”, which means an internal transfer between BlockFi accounts, are not even referenced in that post. Further, “Twitter” as a word does not even occur or feature on BlockFi’s terms of service, let alone be a formal means of communicating with BlockFi users. Indeed, only “email” as a means of electronic communication with BlockFi users is expressly mentioned in BlockFi’s terms of service (**Exhibit G**).

Consistent with the equitable principle that “Equity regards as done what ought to be done” and the principle that the Court does not aid a party (BlockFi) that doesn’t come with clean hands, the displayed Wallet balances for the users must be regarded as true and effective as of November 23, 2022.

- 3.) **Insufficient and inadequate Notice:** BlockFi, over the ordinary course of business, officially communicates with BlockFi users using their registered email address for all account related matters, which is used by BlockFi users to log into their BlockFi accounts and submit support-related tickets. BlockFi users aren’t required to have a Twitter account, nor can they be expected to use or follow that particular social media platform to receive updates for their accounts. The so-called “Notice” by BlockFi of pausing of user withdrawals through Twitter is grossly inadequate and insufficient. BlockFi, contrary to its own earlier representation on Twitter, sent out a formal notice of pause in user

withdrawals only on November 11, 2022 at 10:55AM PT (1:55PM ET) to Creditors/users' registered email addresses. (**Exhibit G and Exhibit H**)

- 4.) **Contractual Waiver and Laches**: While BlockFi may have possessed a contractual right to limit transfers from BlockFi Interest Account, they have waived their right in specific user circumstances through their own conduct by allowing transfers from the BlockFi Interest Account to Wallets, subsequently sending out confirmation emails for completion of such transactions (**Exhibit I**). Indeed, it was not until after November 14, 2022 that BlockFi finally paused transfers from the BlockFi Interest Account to Wallets through their Platform itself (**Exhibit J**).

SUMMARY

The Creditors and a significant section of BlockFi Users will be grievously prejudiced and unconscionably put at a gross disadvantage resulting in an unfair deprivation of their personal property held in their BlockFi Wallets, if it is restored to a time and state as of November 10, 2022, 8:15 PM EST, contrary to BlockFi's own prior public representation for these reasons and the overall case facts and circumstances involved.

PRAYER

- 1.) The Creditors pray that the Honorable Court deny the Debtors' Motion to this extent.
- 2.) The Creditors pray that the Honorable Court declare that the Creditors' BlockFi Wallet balances are current as shown as of today, which is the same as of November 23, 2022 when BlockFi publicly represented that all portal balances are accurate, and that be

returned to the Creditors in full, and fully enforce BlockFi's public representations to its users.

- 3.) The Creditors further pray that under absolutely no circumstances should BlockFi be able to renege on its earlier representations that they will be fully operational on November 11, 2022, and thus, the "Platform Pause Time Stamp" can be no earlier than November 11, 2022 at 10:55AM PT (1:55PM ET) as a blanket rule, which also matches the date/time when BlockFi notified the BlockFi users via email, the usual and standard method of communication.

EXHIBIT A

2. The Debtors also seek to reconcile and adjust the User Interface (as defined below) to reflect the proper accounting of digital assets in the Wallet Accounts in connection with certain attempted transactions that took place following the Debtors' decision to pause all platform activity so that all clients are treated fairly. As described more fully in the First Day Declaration, the Debtors were subject to substantial exposure to FTX through the FTX Loan Agreement and FTX Option Agreement, as well as loans that the Debtors made to Alameda Research Ltd. Upon news of FTX's bankruptcy filing, the Debtors recognized that they could not operate their business as usual, and took swift, decisive action to protect their clients' interests and ensure equality of

treatment among similarly situated clients. Chief among these measures was the pause of account withdrawals as permitted under the Debtors' Terms of Service (the "Platform Pause"), which was publicly announced via the Debtors' Twitter account and implemented on the evening of November 10, 2022 at 8:15 p.m. (prevailing Eastern Time) (the "Platform Pause Time Stamp"). On November 11, 2022, FTX began filing for chapter 11 bankruptcy in the District of Delaware⁴ and the Debtors published an update on their website and emailed all clients alerting them to the fact that the Debtors were limiting platform activity.⁵

3. The Platform Pause took effect the moment of the Platform Pause Time Stamp. Thereafter, a client's ability to effectuate a withdrawal, transfer, or trade on the platform was terminated in an effort to maintain the status quo for all clients' digital assets held on the platform as of the Platform Pause Time Stamp. In accordance with the Platform Pause, the Debtors immediately (a) ceased to record transactions in the U.S. Wallet Ledger and International Wallet Ledger and (b) discontinued the ongoing daily true-ups of the WLLC FBO Wallets, the International Vault Wallets, the U.S. Wallet Ledger, and the International Wallet Ledger (each as defined below), and ceased making digital asset transfers in connection therewith. Simply put, the Debtors' clients were unable to, and did not, effectuate any transactions on the BlockFi platform beginning the moment of the Platform Pause Time Stamp.

EXHIBIT B


We are shocked and dismayed by the news regarding FTX and Alameda. We, like the rest of the world, found out about this situation through Twitter.


Given the lack of clarity on the status of FTX.com, FTX US and Alameda, we are not able to operate business as usual.

Our priority has been and will continue to be to protect our clients and their interests.

Until there is further clarity, we are limiting platform activity, including pausing client withdrawals as allowed under our Terms. We will share more specifics as soon as possible. We request that clients not deposit to BlockFi Wallet or Interest Accounts at this time.

We intend to communicate as frequently as possible going forward but anticipate that this will be less frequent than what our clients and other stakeholders are used to.





 BlockFi


 BlockFi
@BlockFi




7:16 PM · Nov 10, 2022


3,337 Retweets 3,294 Quote Tweets

11K Likes

 Lord As... @Lord_... · Nov 10
Replying to @BlockFi
gg wp

   46

 Frank FL... @frank... · Nov 10
Replying to @BlockFi
Well. There it goes.




EXHIBIT C



BlockFi 
@BlockFi

...

We recognize, given the current market conditions, that this delay is less than ideal.

BlockFi will remain fully operational on 11/11 and all crypto transactions, including withdrawals, will continue as normal.

As always, @BlockFiSupport is available to answer any questions.

8:00 AM • Nov 10, 2022

EXHIBIT D

Announcement

Crypto Withdrawals: Crypto withdrawals are **unaffected**. All crypto withdrawals continue to be processed as planned in line with our terms and conditions.

Wire Withdrawals: Any wire withdrawal scheduled after **Thursday, November 10 at 3PM ET** will not be processed until **Monday, November 14**.

ACH: ACH deposits and withdrawals may be delayed by two extra business days.

Loan Processing: Wire loan funding and payment requests submitted after **Thursday, November 10 at 3PM ET** will not be processed until **Monday, November 14**. Crypto and collateral crypto loan payment requests are **unaffected** and will be processed as normal.

BlockFi · November 10, 2022

52 40 119

BlockFi @BlockFi · Nov 10, 2022

Silvergate, our US-based banking partner, will be observing the federal holiday (Veterans Day) on November 11.

As a result of this planned third-party closure, ACH and Wire transactions scheduled for 11/11 will not process until 11/14.

8:00 AM · Nov 10, 2022

28 Retweets 12 Quote Tweets 119 Likes

BlockFi @BlockFi · Nov 10 · Replying to @BlockFi

EXHIBIT E

BlockFi

Products Institutions Private Client Resources Company Log In

[← Back to blog](#)

FEATURED

Responses to Frequently Asked Questions

Published, 23 November, 2022

Share article

[Twitter](#) [Facebook](#) [LinkedIn](#) [Email](#)

- Where can I find information about my account?
 - You can continue to check the BlockFi app for accurate information regarding your account balances. We will continue to share updates regarding changes to our products through our official communication channels, including [Twitter](#) and our [blog](#).

EXHIBIT F

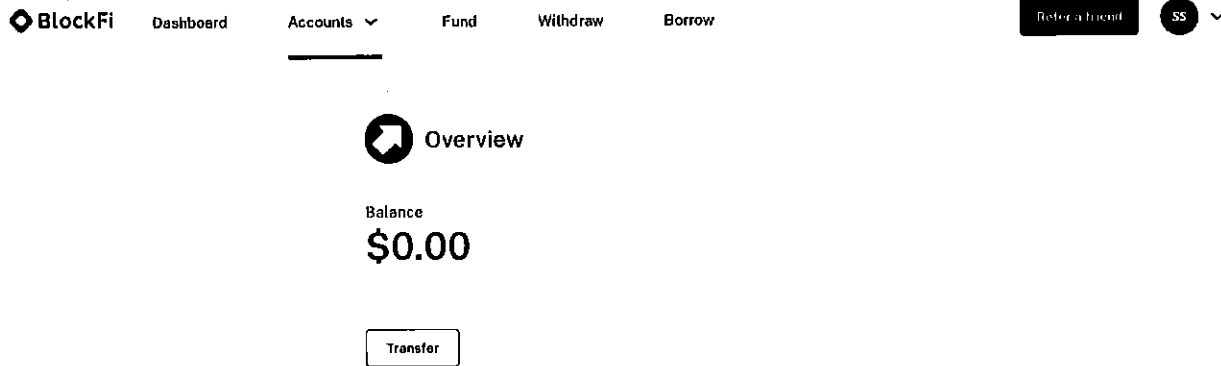


EXHIBIT G

Electronic Communication

We, or our affiliated BlockFi entities, may be required to provide certain legal and regulatory disclosures, periodic statements and confirmations, notices, tax forms and other communications (collectively "Communications") to you in written form. By agreeing to these Terms, you consent to BlockFi delivering such Communications to you in electronic form, including e-mail. Consent for electronic delivery applies to every year the Communications are furnished. If you no longer have access to your account to receive the Communications in electronic format, then you may request the Communication in written form.

EXHIBIT H

Important update to your account ▸



BlockFi <blockfi@blockfi.com> (unread)
to me ▾

to: BlockFi <blockfi@blockfi.com>
reply to: blockfi@blockfi.com
to: apalmcare@gmail.com
date: Nov 11, 2022, 10:55 AM
subject: Important update to your account
from: blockfi.com
signed by: e.blockfi.com
security: is Standard encryption (TLS) [Learn more](#)



Nov 11, 2022 10:55 AM ☆ ↶ ⓘ

Dear BlockFi Clients,

As always, we want to provide important updates to you about our business as transparently, empathetically, and quickly as possible.

We are in the heartbreaking position of sharing the following news with you:

1. We are shocked and dismayed by the news regarding FTX and Alameda. We, like the rest of the world, found out about this situation through Twitter. Given the lack of clarity on the status of FTX.com, FTX US and Alameda, we are not able to operate business as usual.

2. Our priority has been and will continue to be to protect our clients and their interests.

3. Until there is further clarity, we are limiting platform activity, including pausing client withdrawals as allowed under our Terms. We will share more specifics as soon as possible. We request that clients not deposit to BlockFi Wallet or Interest Accounts at this time.

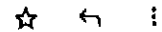
EXHIBIT I

Internal Transfer Completed from BlockFi Interest Account
into BlockFi Wallet



BlockFi Support <support@blockfi.com>
to me

Nov 10, 2022, 11:52 PM



Nov 10, 2022

Andre,

Your assets have been successfully transferred from your BlockFi Interest Account into your BlockFi Wallet. Please see the transaction details below.

If you did not initiate this request, please [contact us](#) or call us at 646-779-9688 during business hours (Monday - Friday 9:30am - 5pm ET). To learn more about BlockFi Wallet [click here](#).

INTERNAL TRANSFER

Date: 2022-11-11

Currency: ETH

Amount:



Origin: BlockFi Interest Account

Destination: BlockFi Wallet

Thanks,

The BlockFi Team



BlockFi Support <support@blockfi.com>
to me ▾

Nov 10, 2022, 11:59 PM



BlockFi

Andre,

Your assets have been successfully transferred from your BlockFi Interest Account into your BlockFi Wallet. Please see the transaction details below.

If you did not initiate this request, please [contact us](#) or call us at 646-779-9688 during business hours (Monday - Friday 9:30am - 5pm ET). To learn more about BlockFi Wallet [click here](#).

INTERNAL TRANSFER

Date: 2022-11-11

Currency: USDC

Amount: [REDACTED]

Origin: BlockFi Interest Account

Destination: BlockFi Wallet

Thanks,

The BlockFi Team



BlockFi Support <support@blockfi.com>
to me ▾

Fri, Nov 11, 12:00 AM



BlockFi

Andre,

Your assets have been successfully transferred from your BlockFi Interest Account into your BlockFi Wallet. Please see the transaction details below.

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INTERNAL TRANSFER

Date: 2022-11-11

Currency: BTC

Amount: [REDACTED]

Origin: BlockFi Interest Account

Destination: BlockFi Wallet

Thanks,

The BlockFi Team



BlockFi Support <support@blockfi.com>
to me ▾

Fri, Nov 11, 12:00 AM



BlockFi

Andre,

Your assets have been successfully transferred from your BlockFi Interest Account into your BlockFi Wallet. Please see the transaction details below.

If you did not initiate this request, please [contact us](#) or call us at 646-779-9688 during business hours (Monday - Friday 9:30am - 5pm ET). To learn more about BlockFi Wallet [click here](#).

INTERNAL TRANSFER

Date: 2022-11-11

Currency: GUSD

Amount: [REDACTED]

Origin: BlockFi Interest Account

Destination: BlockFi Wallet

Thanks,

The BlockFi Team



BlockFi Support <support@blockfi.com>
to me ▾

Fri, Nov 11, 12:00 AM



BlockFi

Andre,

Your assets have been successfully transferred from your BlockFi Interest Account into your BlockFi Wallet. Please see the transaction details below.

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INTERNAL TRANSFER

Date: 2022-11-11

Currency: BUSD

Amount: [REDACTED]

Origin: BlockFi Interest Account

Destination: BlockFi Wallet

Thanks,

The BlockFi Team



BlockFi Support <support@blockfi.com>
to me ▾

Nov 11, 2022, 12:00 AM



BlockFi

Andre,

Your assets have been successfully transferred from your BlockFi Interest Account into your BlockFi Wallet. Please see the transaction details below.

If you did not initiate this request, please [contact us](#) or call us at 646-779-9688 during business hours (Monday - Friday 9:30am - 5pm ET). To learn more about BlockFi Wallet [click here](#).

INTERNAL TRANSFER

Date: 2022-11-11

Currency: LTC

Amount: [REDACTED]

Origin: BlockFi Interest Account

Destination: BlockFi Wallet

Thanks,

The BlockFi Team

EXHIBIT J

Withdraw

×



Withdrawals are currently paused

Close

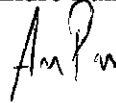
CERTIFICATE OF SERVICE

WE HEREBY CERTIFY that the foregoing document is being served this day

_____ on all counsel of record or pro se parties in a manner or procedure
authorized by law.

By:

/s/ Andre Paim Carollo dos Santos



Mailing Address:

2943 McKinley Dr

Santa Clara-CA, 95051

Email: apaimcar@gmail.com

Phone: (224) 789-0926



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PRIORITY MAIL®

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EXPECTED DELIVERY DAY: 12/24/22

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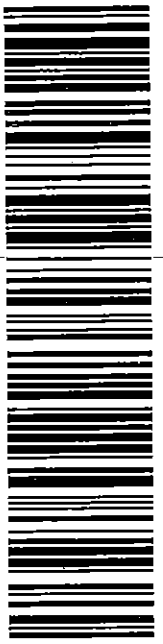
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FROM:

Andrea Raim Corallo del
2943 McKinley Dr.
Santa Clara - CA, 95

TO:

Attn: Hon. Chief Judge M.
B. Kaplan (MBK)
Jackson S. Fisher US (C
Courtroom #8
402 East State Street
Trenton - NJ, 08608